

9th of March 2020

Input from Assovetro to the Public consultation on draft ETS State aid Guidelines (Ref.: HT.582)

Assovetro, the **National Association of Glass Industrialists**, is a non-profit business association belonging to Confindustria, founded in 1947 among the industrial companies that manufacture and transform glass. Currently, there are 70 member companies in the Association, for a total of about 16,000 employees.

The main sectors represented by Assovetro are those that deal with the production of flat glass, primarily used in the field of construction and transport industry, and hollow glass, especially used as packaging for the food and tableware industry. The remaining part of the production includes wool and glass yarns that are used in construction, respectively as elements for thermal and acoustic insulation and reinforcements, but also glass pipes and technical glasses.

The industrial sector of **flat glass** generally includes the production of sheet glass, raw glass sheets and float glass. This activity is carried out by companies whose factories are located in the north, central and southern Italy.

The production of **hollow glass** with automatic process is carried out by companies that holds factories homogeneously located throughout the national territory. This sector includes the production of glass packaging (bottles, flasks and demijohns), the pharmaceutical industry bottle, cosmetic and perfumery industry, food jars and articles for domestic use (such as glasses, dishes, table accessories etc.).

The production data record significant quantities, in particular:

- the production of **bottles** in 2018 registered an increase of 3% (ISTAT figure adjusted to 3,575,961 tons). Imports and exports recorded an increase of 23% and 9.5% respectively.
- the production of the **vial** registered an increase of 4%. Imports fell by 4% and exports increased by around 3%.
- the production of **food vessels** in 2018 increased by about 1.4%. Imports showed an increase of 1.2% and exports a decrease of 9.4%.
- for the **household items sector**, production decreased in 2018 (-4%), while imports and exports decreased by 6.3% and 3% respectively.
- The national production of **wool and glass yarns**, carried out by companies located in northern Italy, shows an increase of 13.3% compared to 2017. Imports and exports recorded respectively an increase of 2.8% and 6%.

General Consideration

Assovetro intends to participate in the "Public Consultation on EU ETS state aid guidelines", promoted by the European Commission, to express the point of view of the Italian Glass Industry on a topic of primary importance for the entire sector.

The production of glass is in fact an energy-intensive activity, because the fusion of this material requires the achievement of very high temperatures. The technological characteristics of the

production process make the melting of glass one of the processes subject to the EU-ETS Directive, both for combustion emissions and the emissions related to the vitrification reaction.

The data of the sector's first sustainability report, published in February 2020, reveal a **strong containment of CO2 emissions and waste thanks to the technological investments made by the companies belonging to the Association in the last three years, which in fact increased by 44.2% between 2016 and 2018**. Also, in the period analyzed by the Report, the percentage of renewable energy used in the production process increased significantly, from 15.37% to 26.20%.

The report underlines that the CO2 emissions produced per ton of molten glass have an almost stable trend between 2017 and 2018, instead recording a significant decrease compared to 2016.

Energy costs are one of the main components of the cost of the product and they significantly impact on the competitiveness of companies.

The ETS directive, recently updated, has already revised the emissions targets to 2030. The glass industry fully recognizes the value of environmental protection policies, and, thanks also to the large investments mentioned above, it strives to reduce emissions about 2.5% per year.

Despite the efforts made in the process of reducing greenhouse gas emissions, the glass industry **was not consulted in its entirety in the process of drafting the ETS State Aid Guidelines in consultation**, unlike sectors such as aluminum and leather goods which, in Italy, have little impact in terms of emissions, including indirect ones. There are also sectors such as flat glass and glass wool, while technical glass and hollow glass have not been taken into consideration.

The list of sectors consulted, therefore, appears to have been compiled and analyzed in an **incomprehensible and poorly transparent way**.

Nonetheless, these guidelines include provisions and measures that are immediately applicable in the laws of the Member States, aimed at limiting the so-called carbon leakage due to the "indirect" costs of the ETS system, or to the costs determined by the use of electricity in industrial processes.

The identification of the sectors that can access the compensation, envisaged by the ETS directive as they are exposed to indirect "carbon leakage" risk, is based on an assessment of the industrial sectors which is carried out using specific parameters.

In particular, are eligible those sectors with:

- carbon leakage indicator (related to indirect emissions only) ≥ 0.2 and;
- trade intensity $> 20\%$ and;
- indirect carbon intensity $> 1 \text{ KgCO}_2 / \text{EuroGVA}$.

To that end and for exemplification purposes only, it is worth noting that European hollow glass industry risks not to being included among the sectors eligible for indirect costs compensation within the ETS directive. Official NACE data for this sector indicate an indirect emission intensity of **0.146** (carbon intensity of $0.593 \text{ KgCO}_2 / \text{GVA}$ by a trade intensity of 24.7%). Moreover, there are some incomprehensible variations in the intensity of electricity measured at level of NACE 23.13 code (0.87 in 2009; 1.17 in 2014; 0.54 in 2019). That volatility is probably attributable to the inconsistency of data relating to electricity consumption. Data on indirect costs are collected by the Member States and, according to the Commission, only 70% of the total indirect emissions were covered under phase 3 of the EU ETS. It is probable that, due to the limitation of the data, the estimates of indirect emissions may not be representative on the entire hollow glass sector.

Likewise, all the other sectors of glass production (flat glass, glass fibers and glass wool, technical and tube glass manufacturing) are at risk to be excluded from the list of eligible sectors, as the list attached to the document under consultation does not include them.

In relation to the market context, it is also important to note that the competition regime risks to be unbalanced in favor of producers of other packaging materials such as aluminum and paper (which appear in the list of sectors subject to compensation).

It should also be considered that electricity constitutes only 30% of the incoming energy for the glass industry (in Italy), while the rest is made up mainly of natural gas. Electrification represents one of the stages of the decarbonisation process: to support it, it is essential to consider the huge cost of this energy source compared to the others (per MWh, electricity is approximately three times more expensive than natural gas, depending on the country). Hence the further need to include glass producers in the compensation of indirect costs, in order to push industries characterized by "hybrid" production processes to continue their way toward decarbonization by electrification of consumption.

Going back to the document under public consultation, the Commission, in an unclear way, has left the possibility of carrying out a "qualitative assessment" of the sector: it would still be possible to add sectors originally excluded from the list, provided that the indicator of "indirect" carbon leakage should be at least **0.2** and that "the risk of carbon leakage be assessed by the consultant as "average" in the consultant study"; however:

- a) the relocation of emissions takes place through the relocation of the production of the given product, therefore involving the relocation of both **direct and indirect emissions at the same time**. It therefore does not seem logical to evaluate the risk of relocation of direct and indirect emissions separately.
- b) In the assessment of the "total" carbon leakage risk for a given sector, reference is made to the parameter corresponding to the value **greater than 0.2 or the exact same parameter used to evaluate the indirect carbon leakage threshold**. Even the choice of the value of this parameter appears difficult to understand.

The proposal put forward by the Commission therefore does not take into account any system of harmonization at European level of indirect costs, leaving the current state aid mechanism and the distortions it entails to the detriment of the national production system substantially unchanged. Moreover, some of the criteria proposed by the Commission do not seem to fully take into account the technical and economic difficulties related to the implementation of efficient technologies.

The distorting effect of the measures envisaged for the reimbursement of indirect ETS costs could therefore, for sectors excluded from the aid such as glass, indirectly incentivize the relocation of production within the EU to countries with lower electricity costs and, presumably, with higher emission, obtaining **effects contrary to the objectives of European policies**, since:

- companies will not be encouraged towards a further process of electrification of consumption, as it is economically counterproductive and not benefiting from any compensation regarding the legislation on emissions;
- the most virtuous companies from the point of view of "electrification", not receiving any compensation, will be more penalized;
- companies penalized in this way, will move their production to those countries that, within the EU, can guarantee more favorable conditions, consequently weakening the European manufacturing sector and increasing overall CO₂ emissions;
- companies not included in the compensation facility will move their production to non-EU countries, resulting in a loss of added value within the European market, precisely to the advantage of countries that instead also benefit from other aid measures, without reductions of total carbon emissions.

It seems paradoxical, therefore, that industrial structures already equipped with the best available technologies, which have made substantial investments in terms of energy efficiency with a consequent low indirect carbon footprint cannot benefit from the compensation of indirect costs.

Furthermore, the identification, indicated by the Guidelines for the compensation of the indirect costs of the ETS, of the minimum value of the emission factor (carbon intensity) of **1 KgCO₂/EuroGVA**, seems little sensible. This value could induce a partially electrified sector, at risk of "total" carbon leakage, but not falling within the parameters set by the directive to take advantage of the compensation for "indirect" carbon leakage only, to interrupt the virtuous process of decarbonisation and returning to the use of fossil fuels, as it could benefit, for instance, from aid on free allowances on direct emissions and from lower costs on energy.

The important amount of investments operated and the implementation of the best available technologies have allowed high standards of energy efficiency in the glass industry. However, even if the companies wanted to further pursue the reduction of emissions from industrial sites or to improve the energy utilization, they wouldn't have any kind of incentive to change their energy models in the production phase. In this sense, further electrification would lead to a disadvantageous economic situation due to exclusion from economic compensation.

The paradox lies in the fact that the indirect carbon intensity, currently achievable thanks to the huge investments mentioned above and also obtainable thanks to the use of electricity, would lead to the exclusion of the glass sector (and the Italian one, that is one of the most virtuous among European ones).

Final Proposals

Thanks to the considerations expressed above, Assovetro indicates the necessity to review the inclusion criteria of the sectors in the list of those that can benefit from the compensation of indirect costs by:

- a) **creating a single list** including the sectors at risk of "total" carbon leakage and "indirect" carbon leakage;
- b) **reviewing the threshold parameters on the carbon leakage indicators** related to total emissions and indirect emissions only, bringing the latter to a value of 0.1 (instead of 0.2 currently set) in order to differentiate it from the threshold used for carbon leakage indicator related to total emissions;
- c) **not setting minimum thresholds** to the value of the "trade intensity" factor;
- d) **not setting minimum thresholds** to the value of the carbon intensity factor;
- e) for the sectors facing a "total" carbon leakage risk (*e.g.* all specialties of glass sector), **allowing each Member State to implement specific policies** to identify the compensation of indirect costs, in case differentiating them by sector.

Therefore, it is requested to include, among the NA.CE codes that can benefit from "indirect cost" reimbursement envisaged by the EU-ETS system for the electricity generation sector, those related to glass production and transform, namely:

- manufacture and transformation of **flat glass** (NA.CE 23.11 and NA.CE 23.12);
- manufacture of mechanical **hollow glass** (NA.CE 23.13);
- manufacture of glass in **wool** and **fibers** (NA.CE 23.14);
- **glass** and **tube** manufacturing (NA.CE 23.19).